


Energy Action Plan Update on Natural Gas

California Public Utilities Commission
Richard Myers
California Energy Commission
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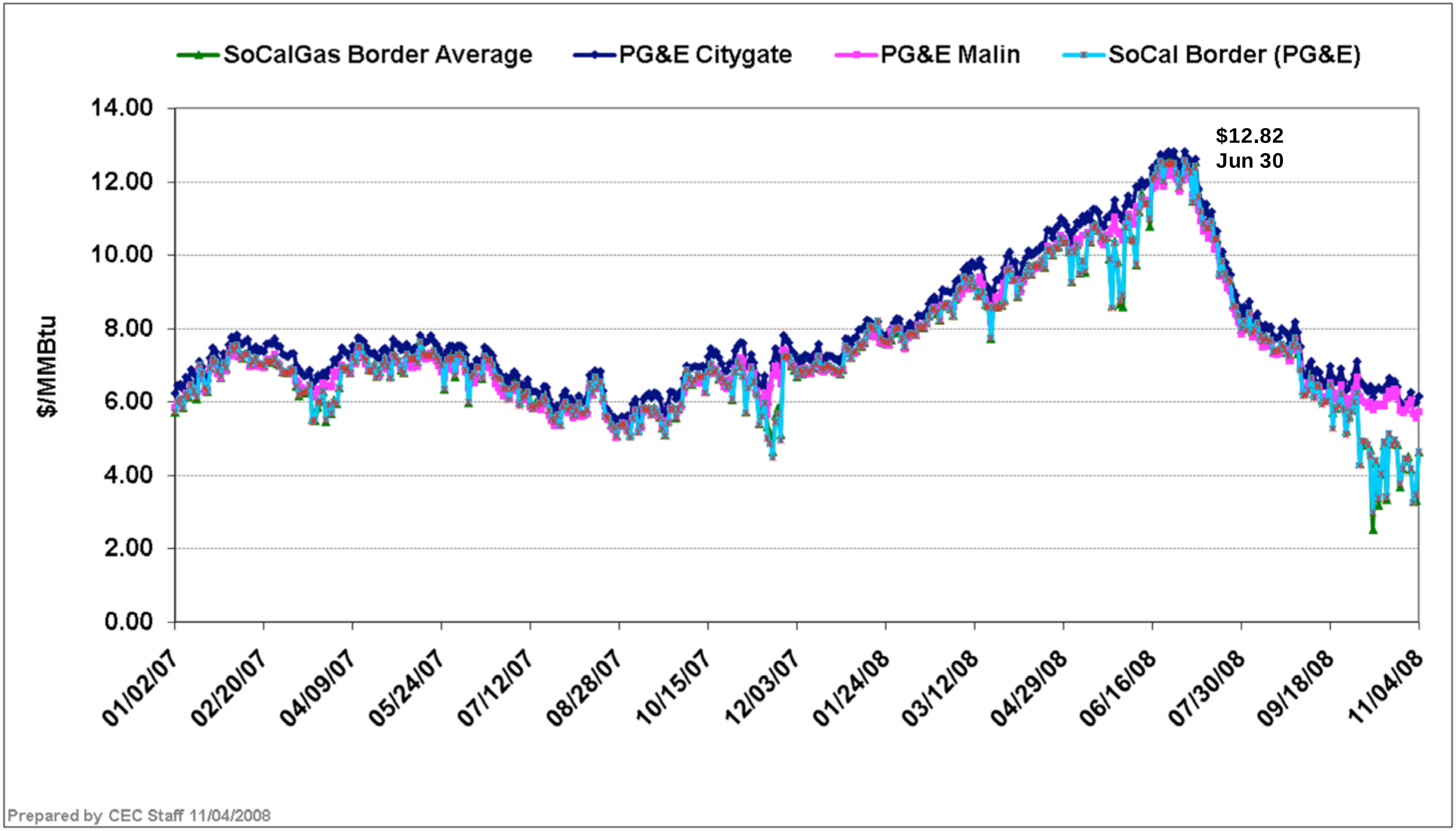
Positive Natural Gas Outlook

- Drop in spot and futures gas prices since July 2008
- Long-term demand expected to be flat
- In-state and interstate pipeline transmission capacity well in excess of demand
- Expected new interstate pipeline in 2011, provides major access for California to low-priced Rockies supplies, diversifies supply access, improves reliability
- Possible new storage capacity additions in coming years would add significant storage capacity in California
- So. California firm access rights system now in operation
- Biogas potential warrants continued examination

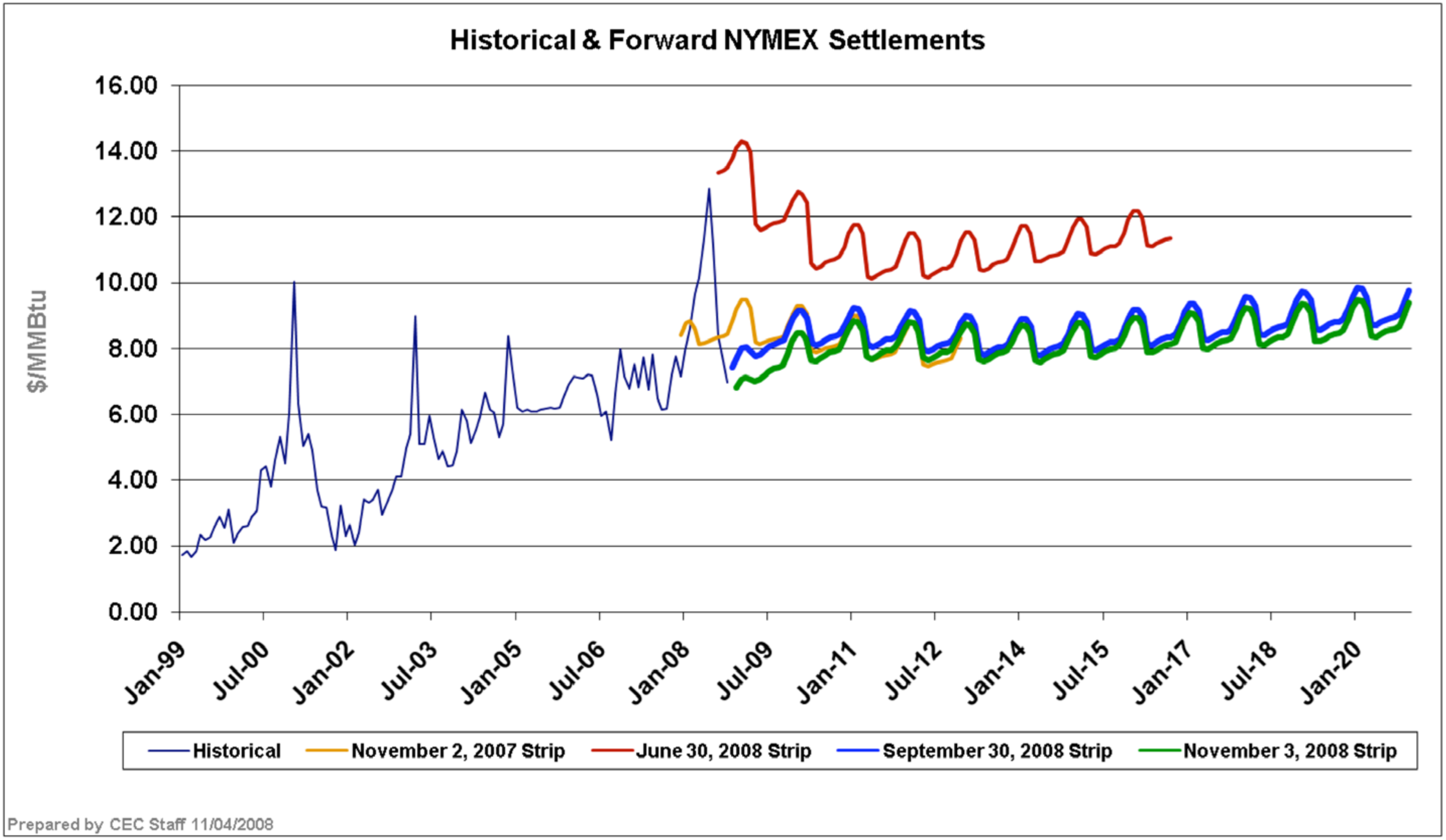
Natural Gas Prices Fall but Still Volatile

- February 2008 EAP Update noted that natural gas prices were higher and more volatile, with little expectation of a price decrease in the near future
- Prices peaked in summer, and then fell by 50% over late summer and fall months
- Higher domestic production (7% higher than last year!), lower oil prices, and poor economy likely spurred the fall in prices
- Increased domestic on-shore production offset damage to production by hurricanes and falling imports from Canada and LNG
- California prices somewhat lower than national average
- Need for continued caution: gas prices may remain volatile in years ahead, lower prices may moderate pace of drilling

CA Natural Gas Spot Prices



U.S. Natural Gas Futures Prices



No Big Increases Seen in Long-term Natural Gas Demand

- California natural gas utilities' latest forecast of demand in 2008 California Gas Report shows flat long-term demand (only a 0.1% per year increase through 2030)
- Energy efficiency and renewables programs have significant impact in moderating demand – utilities estimate 330 Bcf/yr by 2015 or almost 15% of demand
- Forecast assumes 20% RPS target by 2012 – Governor now supports 33% target by 2020
- Solar water heating incentive being examined by CPUC, pilot program underway
- Impact of GHG reduction efforts on long-term gas demand unclear
- State transmission capacity well in excess of average demand, storage capacity helps meet peak demand

Major gas transmission and storage capacity additions possible

- In November 2008, CPUC approved PG&E capacity contracts on proposed Ruby interstate pipeline from Rockies for core gas customers and for electric generation
- Ruby (1.3 billion feet per day pipeline) to provide major new access to low-priced Rockies supplies, competition with Canadian supplies, diversifies supplies available to northern California, improves reliability
- Kern River Pipeline also planning 145 MMcfd expansion in 2010, from the Rockies to southern California
- Major storage capacity additions possible in coming years: Gill Ranch, Sacramento, SoCalGas, Wild Goose
- Local transmission constraint in SoCalGas area (Imperial Valley) to be alleviated in 2009
- PG&E also adding local transmission capacity to improve delivery reliability

LNG Terminal in Baja Operational, but Major Supplies Not Expected in Near-term

- Sempra LNG Costa Azul facility in Baja Mexico became operational in May 2008
- Increased domestic production moderating prices, pushing off LNG supplies into later years
- California prices likely to be lower than global LNG prices in near-term - significant LNG deliveries to California from Costa Azul or other LNG terminals unlikely
- In October 2008, CPUC found that LNG supplies should compete directly with domestic supplies, and special guidelines or procedures for approval of utility LNG supplies weren't needed at this time


“Firm access rights” system implemented in southern California

- In December 2006, CPUC adopted a “firm access rights” (FAR) framework for SoCalGas’ and SDG&E’s transmission system
- Implementation began on October 1, 2008
- FAR system provides firm delivery rights into SoCal/SDG&E transmission system, assures firm transmission shippers, including LNG, certainty that their supplies will be delivered at certain receipt points
- Some receipt points are more heavily utilized than others
- Establishes major new pricing point (SoCal citygate)
- FAR system similar to what has existed in northern California for 10 years
- FAR system will provide a signal as to which receipt point capacity should be expanded
- CPUC unaware of any significant problems to date

Biogas potential warrants continued examination

- Biogas potential in California includes methane production from waste from cattle, landfill, organic waste
- Reduces methane (a significant GHG) production, provides new source of in-state supply
- Estimates range from tens to hundreds of MMcfd (roughly 1-5% of California demand)
- Bioenergy Interagency Working Group working collaboratively to explore potential, carry out Bioenergy Action Plan, including biogas

California Needs to…

- Examine storage field applications and support as appropriate
- Keep an eye on natural gas commodity prices
- Ensure transmission infrastructure remains robust and provides diverse supply access, and curtailments remain very rare
- Continue to examine and pursue biogas potential
- Maintain and strengthen EE and renewables programs, examine solar water heating incentives
- Monitor FAR system – 18-month review in 2010
- Assure that gas utility delivery rates are reasonable
- Intervene at FERC as necessary on interstate pipeline proceedings